MHIP
Maryland Health Insurance Plan

MARYLAND HEALTH INSURANCE PLAN
2013 ANNUAL REPORT
For Period July 1, 2012 through June 30, 2013

Providing health insurance for medically uninsurable Marylanders since 2003.

MHIP
Maryland Health Insurance Plan

December 2013

Honorable Martin O'Malley, Maryland State Governor
Members of Maryland State Senate
Members of Maryland House of Delegates

On behalf of the Board of Directors of the Maryland Health Insurance Plan (MHIP), I am pleased to present this Annual Report. The report summarizes the Maryland Health Insurance Plan's operations for fiscal year 2013.

MHIP experienced a total increase in enrollment by 2.5%. Paid claims increased by 1.2 % medical and by 5.4% pharmacy. MHIP continues to provide vital services to Marylanders who otherwise would not have access to health insurance. Our members continually express their gratitude for MHIP and the lifesaving impact it has had on their lives.

Like many organizations, MHIP has been actively planning and preparing for January 1, 2014 when additional health reform changes go into effect. The MHIP Board has determined that the majority of persons currently covered under the MHIP will be eligible for comprehensive health insurance through the commercial market or through the Maryland Health Benefit Exchange (MHBE) beginning in January 2014. The MHIP Board of Directors made the decision to stage the transition of the MHIP population to the commercial market over a period of time in order to provide a sufficient transition period for this high-risk, vulnerable population. MHIP is working closely with the MHBE and our community partners to ensure the transition of MHIP members to a new health insurance plan.

I am available to answer any questions or to provide additional information at (410) 576-2056 or meberle@mhip.state.md.us

Sincerely,

Michele Eberle

Michele Eberle
Executive Director

MHIP
Maryland Health Insurance Plan

Table of Contents

Extensive additional information regarding MHIP is available on the MHIP website at ***www.marylandhealthinsuranceplan.state.md.us***.

MHIP
Maryland Health Insurance Plan

History and Purpose of the Pool

MHIP is the State's high-risk pool whose purpose is to decrease uncompensated care costs through access to affordable comprehensive health benefits for medically uninsurable residents of Maryland. MHIP was created by the Health Insurance Safety Net Act of 2002 as an independent unit of the Maryland Insurance Administration and became operational on July 1, 2003. Pursuant to Chapter 259, Acts of 2008, MHIP became an independent unit of the state government on October 1, 2008.

MHIP is one of 35 state high risk pools across the nation and is a member of the National Association of State Comprehensive Health Insurance Plans.

Structure and Administration

Board of Directors
MHIP is governed by a ten-member board of directors, consisting of the Secretary of the Department of Budget & Management, the Secretary of the Department of Health and Mental Hygiene, the Executive Director of Health Services Cost Review Commission, the Executive Director of the Maryland Health Care Commission, an insurance carrier representative, an insurance producer representative, a minority owned business representative, a hospital representative, and two consumer members. The Board is required to establish a standard benefit package and associated premium rate to be charged for coverage by MHIP.

Executive Director and Staff
An Executive Director and a staff of eight (8) employees oversee the day-to-day operations of MHIP. The staff consists of a Controller, Director of Data Analysis and Planning, an Attorney, a Staff Accountant, Manager of Human Resources, Health Data Analyst and an Executive Assistant.

Third Party Administrator
MHIP contracts with a Third Party Administrator – CareFirst of Maryland, Inc. – to perform health plan enrollment, premium billing, claims processing, customer service, on-line information access, accounting and reporting, pharmacy services through a sub-contractor , provider network, care management and other services.

Eligibility and Plan Services

Plan Eligibility Requirements

An individual is eligible to enroll in MHIP if the individual is a resident of Maryland and:

- is unable to obtain substantially similar coverage from a health insurance carrier due to a health condition;
- is unable to obtain substantially similar coverage from a health insurance carrier due to a health condition, except at a rate that exceeds the MHIP rate;
- has federal guaranteed-issue rights under the Health Insurance Portability and Accountability Act (HIPAA) of 1996;
- has a medical or health condition that is included on a list of conditions adopted by the Board by regulation;
- is eligible for the 65 percent Health Care Tax Credit under §35 of the Internal Revenue Code, including former workers and retirees of Bethlehem Steel and Black & Decker; or
- is a dependent of an individual who is eligible for coverage.

Benefit Plans

The Plan offers multiple benefit options that a Subscriber may choose at the time of initial enrollment or during the annual open enrollment period. By law, premiums for all plans must be at least 10% and not greater than 50% higher than the average in the market. In fiscal year 2013 (June 2012-July 2013) MHIP offered the following plans:

MHIP Standard Plans

- PPO Plans: $500 and $1,000 deductible plans. PPO plans provide a higher benefit level for in network providers.
- Health Savings Account (HSA) Qualified Preferred Provider Plan: a High Deductible Plan with a $2,600 combined medical/Rx deductible that can be used with a HSA to pay for health care services with pre-tax dollars.
- Health Maintenance Organization (HMO) – least amount of out of pocket costs.
- Healthy Blue Triple Option – multiple option plan offered by CareFirst.

MHIP+ Plans

Chapter 510 of the Acts of 2004 authorized the Board to subsidize premiums and cost-sharing expenses based on a member's income. Based on this authority, MHIP implemented a subsidy program called MHIP+ through which members with low or moderate income can qualify for reduced premiums and, in some cases, reduced cost sharing. MHIP+ was initially made available in December 2005 to plan members with income at or below 225% of the federal poverty level (FPL). Starting in July 2007, MHIP+ eligibility was expanded to 300% FPL. There are currently 6,327 MHIP members enrolled in MHIP+.

- PPO Plans: $200 and $500 deductible plans.
- HMO Plan

MHIP Federal

MHIP administers Federal plans that were created through the Affordable Care Act of 2010. MHIP provides State funded premium subsidies for Maryland residents. MHIP Federal is offered to individual applicants only. The individual premium rates are determined by the age of the subscriber and apply to individual applicants only. The plan benefit options include:

- PPO Plan: $500 deductible plan.
- HDP: $1,500 high deductible plan.

2013 Plan Highlights

MHIP State Plans

- Medical costs of $140M decreased 4% in FY 2013.
- PMPM of $575 decreased 3%.
- Pharmacy costs of $71M increased 4% in FY 2013.
- PMPM of $291 increased at 5%.
- Inpatient PMPM of $193 decreased 16% from FY 2012 whereas PMPM for Outpatient and Professional settings increased at 9% and 2% respectively.
- Diabetes and Coronary Artery Disease represent the top two chronic conditions for the State population.
- Participation rates for preventive care screenings are higher than the CareFirst Book of Business for all metrics except Well Child Care.
- The State population represents 88% of total major diagnostic category spend.
- High Cost Claimants (defined as members with claims greater than $75k) represented 2% of total membership and 31% of spend.

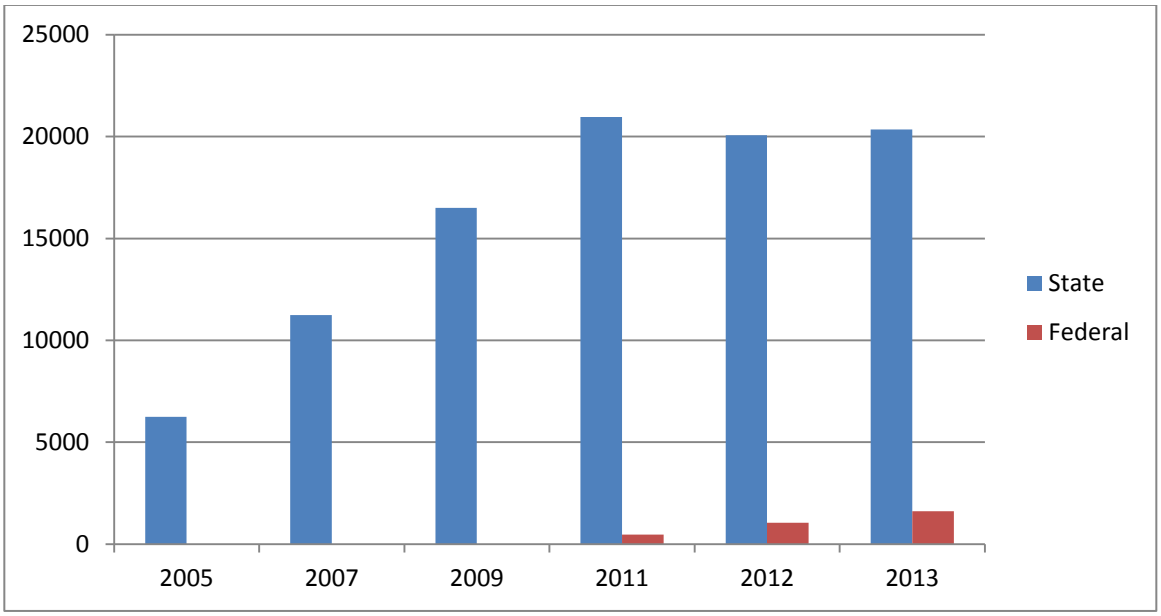
MHIP Federal Plans

- Medical costs of $20M increased 53% in FY 2013.
- PMPM of $1,135 decreased 17%.
- Pharmacy costs of $3M increased 61% in FY 2013.
- PMPM of $182 decreased 12%.
- Inpatient PMPM of $441 decreased 29% from FY 2012.
- PMPM for Outpatient and Professional settings also decreased at 5% and 6% respectively.
- Diabetes and Coronary Artery Disease represent the top two chronic conditions for the Federal population.
- The Federal population represents 12% of total major diagnostic category spend.
- High Cost Claimants (defined as members with claims greater than $75k) represented 5% of total membership and 47% of spend.

Plan Year Statistics

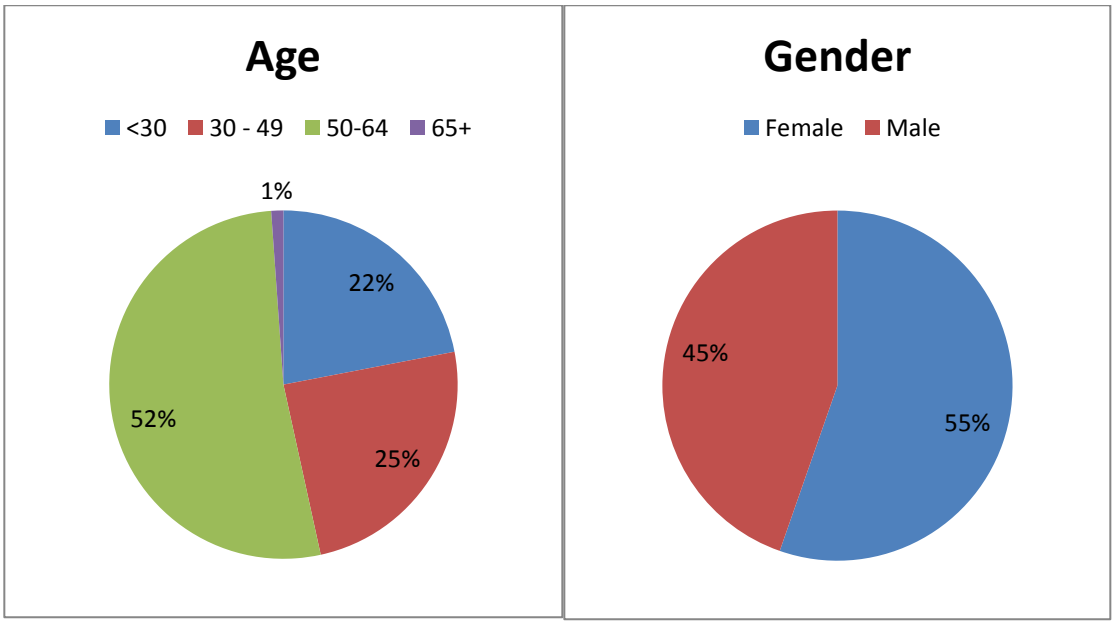
Enrollment

Enrollment in the MHIP State program increased slightly by 1.4% and increased by 54% in the MHIP Federal Program year end over year end. The total enrollment for Fiscal Year 2013 was 21,753 members compared to a total enrollment of 21,216 for Fiscal Year 2012.



Age & Demographics

The average age of MHIP members is 45.2 and the gender distribution is 55.2% female 44.8% male.



Medical and Pharmacy Costs

	State			Federal		
	FY 2012	**FY 2013**	**Change**	**FY 2012**	**FY 2013**	**Change**
Medical Paid	$145,081,155	$140,040,420	-3.5%	$12,924,853	$19,832,213	53.4%
Medical PMPM	$591.97	$574.98	-2.9%	$1,359.08	$1,135.02	-16.5%
Pharmacy Paid	$68,221,079	$70,830,467	3.8%	$1,974,276	$3,186,211	61.4%
Pharmacy PMPM	$278.46	$290.90	4.5%	$207.71	$182.41	-12.2%
Total Medical & Pharmacy Paid	$213,302,234	$210,870,887	-1.1%	$14,899,129	$23,018,424	54.5%

Top Conditions Driving Costs

For the top 5 major diagnostic category costs Neoplasms represent the largest amount spent for both the State and Federal Populations.

Conditions Driving Costs	FY 2012	FY 2013	
Major Diagnostic Category (FY 2013 Categories)			
	Plan Paid	Plan Paid	Change in Cost
Neoplasms	$28,169,590	$24,749,544	-12.1%
Diseases of the Musculoskeletal System and Connective	$17,954,869	$17,567,474	-2.2%
Diseases of the Genitourinary System	$9,695,285	$15,448,762	59.30%
Factors Influencing Health Status	$14,523,238	$14,672,818	1.00%
Diseases of the Circulatory System	$13,550,697	$13,676,704	0.90%
Diseases of the Digestive System	$11,652,798	$10,511,294	-9.8%
Injury and Poisoning	$9,535,278	$10,178,047	6.70%
Systems, Signs, and Ill-Defined Conditions	$8,365,160	$8,555,365	2.30%
Mental Disorders	$7,648,797	$8,184,804	7.00%
Diseases of the Nervous System and Sense Organs	$6,848,278	$7,667,567	12.00%
Infectious and Parasitic Diseases	$6,229,917	$5,418,286	-13.0%
Diseases of the Respiratory System	$5,782,323	$5,273,484	-8.8%
Endocrine, Nutritional, Metabolic Diseases and Immunity	$4,409,962	$4,765,294	8.10%
Complications of Pregnancy, Childbirth, and the Puerperium	$3,608,817	$3,614,504	0.20%
Diseases of the Skin and Subcutaneous Tissue	$2,827,601	$2,888,442	2.20%

Top Drugs Utilization and Cost

Ten Drugs by Plan Paid –State

Top 10 Drugs by Plan Paid - State					
Drug Name	Therapeutic Category	# Claimants	# Fills	Total Paid	Cost/Fill
ATRIPLA	Antiretrovirals	527	3,965	$7,077,170	$1,785
TRUVADA	Antiretrovirals	699	4,935	$5,810,521	$1,177
REYATAZ	Antiretrovirals	396	2,619	$2,652,806	$1,013
ISENTRESS	Antiretrovirals	280	1,989	$2,054,581	$1,033
HUMIRA	Disease Modifying Anti-Rheumatoid	74	288	$1,457,530	$5,061
ABILIFY	Antipsychotic - Atypical Agents,	382	1,761	$1,416,009	$804
ENBREL	Disease Modifying Anti-Rheumatoid	82	291	$1,343,289	$4,616
PREZISTA	Antiretrovirals	301	1,630	$1,659,336	$1,018
Copaxone	Central Nervous System	40	111	$1,225,000	$11,036
REBIF	Immunological Agent	25	98	$849,402	$8,667

Top Ten Drugs by Plan Paid—Federal

Top 10 Drugs by Plan Paid - Federal					
Drug Name	Therapeutic Category	# Claimants	# Fills	Total Paid	Cost/Fill
REVLIMID	Antineoplastic - Thalidomide Analogs	5	27	$194,937	$7,220
HUMIRA	Disease Modifying Anti-Rheumatoid	10	40	$187,532	$4,688
ATRIPLA	Antiretrovirals	9	73	$131,255	$1,798
Sutent	Antineoplastic - Protein-Tyrosine Kinase	1	9	$94,695	$10,522
Copaxone	Central Nervous System	3	13	$82,275	$6,329
Xeloda	Antimetabolite - Pyrimidine Analogs	7	30	$85,777	$2,859
TRUVADA	Antiretrovirals	12	72	$82,323	$1,143
LEVEMIR	Injectable Antidiabetic Agents	58	231	$64,012	$277
VALCYTE	CMV Antiviral Agents	5	17	$66,227	$3,896
ABILIFY	Antipsychotic - Atypical Agents, General	15	83	$49,148	$592

Comparison of MHIP Federal (PCIP) to other PCIP Programs and MHIP State

Consistent with national PCIP experiences, MHIP Federal enrollees use a higher volume and intensity of services than those in MHIP State. To qualify for the MHIP Federal program, applicants must have been uninsured for a minimum of six (6) months prior to applying to MHIP Federal and have a pre-existing condition. This means that the MHIP Federal program may attract uninsured individuals who have been recently diagnosed with a severe illness or condition that requires immediate care or treatment. People who otherwise would qualify for MHIP Federal may postpone applying until they have an immediate need for coverage.

Financial Information

Funding
Funding comes from premiums, hospital assessments, a federal grant to high risk pools and investment income.

Premiums
In fiscal year 2013 premiums were $97,912,838 for the MHIP state program. Premiums for the federal pool were $4,546,586.

MHIP Premium and Coverage Subsidy Partners
MHIP accepts premium payments and enrollment referrals from a number of entities.

- The Maryland AIDS Administration, within the Department of Health and Mental Hygiene, subsidizes premiums and prescription drug deductible and copay costs for its members diagnosed with AIDS or HIV who are enrolled with MHIP.

- During fiscal year 2010, MHIP entered into an agreement with the Center for Cancer Surveillance and Control (CCSC) within the Department of Health and Mental Hygiene under which CCSC will pay the premiums and other costs of MHIP members who participate in the Breast and Cervical Cancer Diagnosis and Treatment Program.

- The federal Health Coverage Tax Credit (HCTC) was made available to MHIP members (including their eligible dependents) who qualified for the credit because:

    - they or their employer has been certified by the U.S. Department of Labor as being affected by competition from foreign trade, and are receiving either Trade Readjustment Allowance under the Trade Adjustment Assistance Act or unemployment, or

    - they are a retiree aged 55 to 64 receiving pension payments from the U.S. Pension Benefit Guaranty Corporation.

  The HCTC, which pays 72.5% of the MHIP member's monthly premium, is either advanced monthly to MHIP by the HCTC program under the Internal Revenue Service, or received directly by the member when they file their annual federal tax return.

- Holy Cross Hospital in Silver Spring, Maryland provides partial or full premium assistance to MHIP members who were approved for premium assistance by the hospital.

Hospital Assessments to Provide Funding for MHIP

Each year, the Health Services Cost review Commission (HSCRC) assesses a uniform, broad–based, and reasonable amount in hospital rates to operate and administer the Maryland Health Insurance Plan (MHIP) established under Title 14, Subtitle 5 of the Insurance Article. The assessment is a percentage of net patient revenue that may range from 0.8128% to 3.0%. The current assessment rate is 1.0%

Federal Grant

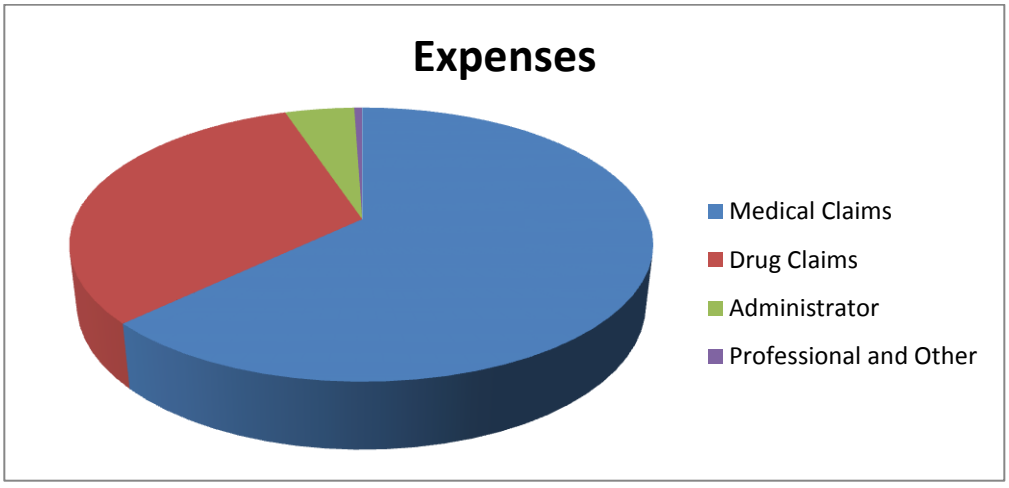
Grants to help cover losses and bonus grants to fund premium reductions or other program enhancements were authorized by Congress for federal years 2006 – 2012 if funds were appropriated in the federal budget for each year. During fiscal year 2013, MHIP received revenues from a federal bonus grant award of $785,565 for the low income premium subsidy program and $1,439,378 for operational losses related to a federal grant received for operating losses incurred during fiscal year 2012.

Investment Income

Interest income for MHIP State is $1,433,861 and $223,417 for the federal pool.

Expenses

Claim payments of $212,829,000 were the largest expense of the MHIP program followed by TPA administration costs of $10,256,000. Professional (staff) and other costs accounted for $1,186,000.



Audited Financial Report

Each year MHIP secures an independent financial audit of its operations. Refer to Appendix A for the Fiscal Year 2013 Audited Financial Statements.

Maryland Health Insurance Plan Board of Directors

T. Eloise Foster is the first and only African-American woman in the nation to serve as a chief state budget officer, having been appointed as Secretary of the Maryland Department of Budget and Management in 2000. Although she left the position in early 2003, she returned in 2007 when she was appointed by Governor Martin O'Malley.

Secretary Foster serves as the chief fiscal advisor to the Governor responsible for development and management of Maryland's $37 billion operating and $1.6 billion capital budgets, a personnel system governing approximately 79,000 employees and an employee and retiree benefits program covering more than 230,000 lives. As Budget Secretary, Ms. Foster led efforts to balance the State budget during the worst recession since the Great Depression and served as the chief architect of fiscal policies to eliminate Maryland's long-term structural deficit, reduce spending, address unfunded liabilities, and protect the State's Triple A bond rating.

Ms. Foster is an honorary lifetime member of the National Association of State Budget Officers and a member of the National Forum for Black Public Administrators. She is a member of Alpha Kappa Alpha Sorority, and has served on the Howard University Cancer Center Advisory Board, the Seton Keough School Board, and the Arts and Humanities Council of Montgomery County. Ms. Foster was named one of Maryland's Top 100 Women in 2002, 2007 and 2010, qualifying her for entrance into the Circle of Excellence. In May 2010, she was honored by the YWCA at their annual Leader Lunch as one of the organization's Academy of Leaders. In 2012, she received the Shining Star Award from the National Organization of Black Elected Legislative Women. *The Daily Record* named her one of the Most Influential Marylanders of 2013.

Ms. Foster holds a B.A. degree in Business Administration from Howard University, an M.B.A from American University, and has completed Harvard University's Senior Executives in State and Local Government Program.

Bradley Herring, Ph.D., is an Associate Professor in the Department of Health Policy and Management at the Johns Hopkins Bloomberg School of Public Health in Baltimore and is the Director of the department's Ph.D. Program in Health Economics and Policy. He is an Elected Member to the National Academy of Social Insurance, and is the Chair of the Board of Directors for the Maryland Health Insurance Plan (MHIP), the state's high-risk pool for medically-uninsurable residents. Prior to arriving at Johns Hopkins University, Dr. Herring served for a year with the White House's Council of Economic Advisers, was an assistant professor at Emory University's School of Public Health, and received a two-year

RWJF Scholars in Health Policy fellowship at Yale University. He earned his Ph.D. in health economics from the Wharton School at the University of Pennsylvania, and has a bachelor's degree in biomedical engineering from Tulane University.

Dr. Herring's research focuses on a number of economic and public policy issues related to health insurance coverage and healthcare reform. He has published articles in the *Journal of Health Economics, Health Affairs,* and *New England Journal of Medicine,* and is co-author of the book *Pooling Health Insurance Risks.* His research has been funded by the Robert Wood Johnson Foundation, Organization of Economic Cooperation and Development, U.S. Health and Human Services Assistant Secretary for Planning and Evaluation, and the Agency for Healthcare Research and Quality. His recent research projects have examined healthcare inflation's impact on wage growth; Medicaid managed care, and the individual health insurance market. He is currently working on a long-term project to examine the effect of health insurance coverage on various health outcomes and a short term-project to examine the effects of insurer and hospital competition on private health insurance premiums. Dr. Herring teaches the courses *Introduction to the U.S. Healthcare System* and *Microeconomic Models in Public Health*. He is a frequent commentator on healthcare reform to the media – including quotes in the *New York Times*, *Washington Post,* and *Wall Street Journal* and appearances on C-SPAN, NPR, CBS News Radio, and local television.

Donna Kinzer is the Executive Director of the Maryland Health Services Cost Review Commission (HSCRC). Ms. Kinzer took an extended leave from her position as a Director at Berkley Research Group, where she was a Director leading the Care Improvement and Payment Reform practice, to help lead the HSCRC staff through development and implementation of payment reforms. Ms. Kinzer has focused her career on helping payers, providers, and other health care entities develop and implement new analytics, delivery approaches, payment models, and supporting infrastructure in response to market shifts, changing customer demands, and health care reform. Ms. Kinzer's 30+ years in the health care field has included extensive experience with provider payment model development (hospital, physician, and other sites of care) and extensive use of large health care data sets including medical and pharmaceutical claims, encounters, cost reports, public and private benchmarks, and other data.

Ms. Kinzer spent the first 25 years of her career at Arthur Andersen, where she became a partner in 1987. She has also held positions in the health care practices of Navigant Consulting and Berkeley Research Group. Ms. Kinzer is a graduate of Towson University and is a Certified Public Accountant.

Debora Kuchka-Craig is corporate vice president of Managed Care for MedStar Health located in Columbia, Maryland. In this role, Kuchka-Craig is responsible for the development and execution of third party payer initiatives for MedStar Health. In addition to contract negotiations and payer relations on behalf of MedStar's hospitals, employed physicians, and diversified healthcare businesses, Kuchka-Craig also serves a key role in MedStar's population health initiatives, with executive oversight for the provider network and credentialing functions supporting MedStar Family Choice (a Medicaid plan operating in Maryland and the District of Columbia), and MedStar's Medicaid HMO.

With nearly 30 years of healthcare industry experience, Kuchka-Craig has served as both provider and payer. During the first decade of her career, she was employed by Blue Cross Blue Shield of Maryland (now CareFirst) where she was responsible for directing the health plan's provider network functions.

A fellow of the Healthcare Financial Management Association (HFMA), Kuchka-Craig served as national chair of HFMA, from 2010-2011, leading the 35,000 member association of healthcare finance professionals. Prior roles include serving as HFMA's national chair-elect, secretary-treasurer, a three-year term on the national board of directors, and chair of the National Board of Examiners. She has been recognized for outstanding leadership by the association with various awards, including the Follmer Bronze, Reeves Silver, Muncie Gold, and Medal of Honor merit awards.

Kuchka-Craig currently serves the citizens of Maryland as an appointee on the Maryland Health Insurance Plan Board. A past recipient of Maryland's Top 100 Women award, she has served on numerous community boards and organizations including United Cerebral Palsy of Central Maryland and Leadership-Baltimore County.

Kuchka-Craig received her Bachelor of Arts degree cum laude from Lehigh University, and a Master of Science in health planning and administration from The Johns Hopkins School of Hygiene and Public Health, Baltimore, Maryland (now the Bloomberg School of Public Health).

Gregg Martino joined Aetna in 1999 as the Assistant Vice President of Regulatory Affairs, in the Law and Regulatory Affairs division at Aetna. Prior to joining Aetna, Gregg worked for 15 years with the PA Department of Insurance in various capacities, including Deputy Commissioner for Consumer Services, Deputy Commissioner for Rates and forms and served as Acting Commissioner for a brief period of time.

Since joining Aetna Gregg has overseen the policy form filing area and various compliance responsibilities. His current duties and responsibilities include facilitating the relationships with state regulators, serves as the legislative and regulatory contact for Pennsylvania, overseeing the conclusion and finalization of market conduct examinations, Aetna's NAIC representative and lead coordinator, regulatory compliance, participates in regulatory transactions, and participates in various corporate regulatory projects. He serves on various corporate boards including the Board of Directors for Aetna's HMOs across the country. He also serves on the Board of the Maryland Health Insurance Plan, the high risk insurance plan for the state of Maryland.

He attended the University of Scranton and obtained his BS in Public Administration. He received his Masters of Public Administration and graduated with distinguished honors from Pennsylvania State University. Gregg lives in Hershey Pennsylvania with his wife and two children.

Bethany Oldfield is the Insurance Producer representative on the Board of Directors for the Maryland Health Insurance Plan. For over 9 years, Oldfield has served as the Assistant Vice President of Compliance for Insurance Solutions, a benefits consulting firm in Annapolis, Maryland. Oldfield has served as the point person at Insurance Solutions to assist individuals seeking various individual policies, including short-term medical policies, medical and dental individual policies, Medicare and Medicare supplemental policies.

With over 20 years of health insurance industry experience, Oldfield has worked in all facets of the employee benefits industry. She worked as a Group Benefits Representative for CIGNA Healthcare where she was responsible for developing relationships and servicing jumbo, national accounts and then worked as an Account Manager at Aetna Healthcare where she managed and serviced large clients with 1,000+ employees. Oldfield later worked as a Benefits Consultant and Human Resources Administrator for two large employers in the Baltimore area, where she provided benefits-related assistance to employees, coordinated and conducted enrollment activities and helped educate employees about each company's benefits programs.

Oldfield received her Bachelor of Science degree, magna cum laude, from Framingham State University and earned her Certified Employee Benefits Specialist (CEBS) designation from The Wharton School, University of Pennsylvania. She is a licensed producer in Life and Health in the state of Maryland and is an active member of the National Association of Health Underwriters and the Baltimore Association of Health Underwriters.

Joshua M. Sharfstein, M.D., is the Secretary of the Maryland Department of Health and Mental Hygiene. Previously he served as principal deputy commissioner of the U.S Food and Drug Administration 2009-2011 and as the Commissioner of Health in Baltimore, Maryland from December 2005 to March 2009. From July 2001 to December 2005, Dr. Sharfstein served on the Minority Staff of the Committee on Government Reform of the U.S. House of Representatives, working for Congressman Henry A. Waxman. He serves on the Health Information Technology Policy Committee for the U.S. Department of Health and Human Services, the Board on Population Health and Public Health Practice of the Institute of Medicine, and the editorial board of the Journal of the American Medical Association. He is a 1991 graduate of Harvard College, a 1996 graduate of Harvard Medical School, a 1999 graduate of the combined residency program in pediatrics at Boston Medical Center and Boston Children's Hospital, and a 2001 graduate of the fellowship program in general pediatrics at the Boston University School of Medicine. Dr. Sharfstein lives with his family in Baltimore, Maryland.

Isazetta A. Spikes is the Director of Grants for Catholic Charities of Baltimore. She is a Certified Fund Raising Executive (CFRE) with 25 years of experience in successful nonprofit fundraising and grantsmanship. Before joining Catholic Charities in 2008, she served as the Director of Annual and Planned Giving at the St. Agnes Foundation. She has previously served as the Director of Development for the Community Law Center, the Prince George's County Chapter of the American Red Cross and as National Membership Director for the National Association for the Advancement of Colored People (NAACP). She currently serves as the Health Chair for the Maryland State Conference of NAACP. In 2013, she was awarded the Dr. Montague Cobb Award for outstanding health Care Advocacy at the NAACP's national Convention in Orlando Florida. In addition, she is serving as a Consumer Member of MHIP Board, she is the Secretary of the New Pathways Board, an Executive Committee Member of the Maryland State Conference of NAACP Branches as well as the Treasurer of the Maryland Association of Fundraising Professionals (AFP).

Michael "Ben" Steffen serves as the Executive Director of the Maryland Health Care Commission. The Maryland Health Care Commission is an independent regulatory agency whose mission is to plan for health system needs, promote informed decision-making, increase accountability, and improve access to health care and health care coverage in Maryland. The MHCC administers the certificate of need program, Maryland small group insurance market reforms, the establishment of Maryland's Health Information Exchange, and quality reporting initiatives for hospitals, nursing homes, and health plans. Prior to assuming this position, he served as the Director of the Commission's Center for Information Services and Analysis. This Center has analytic and operational responsibilities for health care practitioner initiatives in the state including development of an All Payer Data Base and the Patient Centered Medical Home Program. Mr. Steffen serves as a spokesperson for the Commission at state and national levels on state health care expenditures, physician work force, physician uncompensated care, and information security. Before joining the MHCC, he served as a budget analyst in the Health, Housing, and Income Security Division of the Congressional Budget Office, among activities he worked on the modeling that produced the estimates of reforms that ultimately led to the Medicare Prospective Payment System. Mr. Steffen holds a Master's Degree from American University and has completed post-graduate work at the University Of Michigan. He is a former Peace Corps volunteer to Nepal.

This organization shall be known as the Board of Directors of the Maryland Health Insurance Plan (MHIP), hereinafter to be referred to as the "Board". The board operates as a nonprofit, unincorporated public entity created pursuant to, §§ 14-501 through 14-515 of the State Insurance Article, Md. Code Annotated.

APPENDIX A

MARYLAND HEALTH INSURANCE PLAN
Baltimore, Maryland

STATUTORY BASIS FINACIAL STATEMENTS
June 30, 2013 and 2012

CliftonLarsonAllen

Independent Auditors' Report

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

To the Board of Directors
Maryland Health Insurance Plan
Baltimore, Maryland

We have audited the accompanying statutory statements of admitted assets, liabilities and net assets of the Maryland Health Insurance Plan (MHIP or the Plan) as of June 30, 2013, and the related statements of operation and changes in net assets and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Maryland Insurance Administration (the Administration). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 2 of the statutory financial statements, which describe the basis of accounting. The statutory financial statements were prepared on the basis of accounting practices prescribed or permitted by the Administration, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and net assets of the Maryland Health Insurance Plan as of June 30, 2013 and the results of its operations and its cash flows for the year then ended, on the basis of accounting practices prescribed or permitted by the Administration as described in Note 2.

Other Matters

Report on Comparative Information

The financial statements of the Maryland Health Insurance Plan as of June 30, 2012, were audited by other auditors whose report dated October 1, 2012, expressed an unmodified opinion on those financial statements on the regulatory basis of accounting practices prescribed or permitted by the Administration as described in Note 2.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's statutory financial statements. The supplementary information listed on pages 17 through 20, are presented for purposes of additional analysis and are not a required part of the statutory financial statements.

The supplementary information listed on pages 17 through 20 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. Such information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary statements are fairly stated, in all material respects, in relation to the statutory financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of MHIP and the U.S. Department of Health and Human Services, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland September
30, 2013

STATUTORY FINANCIAL STATEMENTS

MARYLAND HEALTH INSURANCE PLAN
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND NET ASSETS
June 30, 2013 and 2012

ADMITTED ASSETS

	2013	2012
Cash and cash equivalents	$184,616,802	$ 182,594,870
Receivables:		
Assessments	21,141,357	20,839,977
Contract - U.S. Department of Health and Human Services	2,195,862	1,636,508
Federal grants	1,832,511	1,974,465
Premiums	712,304	1,588,996
Pharmaceutical rebates	464,400	456,900
Other current assets	24,713	138,418
TOTAL ADMITTED ASSETS	$210,987,949	$209,230,134

LIABILITIES AND NET ASSETS

LIABILITIES		
Loss reserves and loss adjustment expenses	$18,721,000	$22,372,000
Deferred premium tax revenue	4,500,000	4,500,000
Premium subsidies payable	5,985,278	8,706,769
Premiums received in advance	6,877,323	6,326,739
Accounts payable and accrued expenses	1,649,377	1,920,046
Due to CareFirst BlueCross BlueShield	9,132,263	5,683,304
Other liabilities	10,000	10,000
Due to State of Maryland	3,933,989	2,265,355
	50,809,230	51,784,213
NET ASSETS		
Unreserved and undesignated	160,178,719	147,945,921
Designated - State of Maryland Kidney Disease Program	-	5,000,000
Designated - State of Maryland Medical Assistance Program	-	4,500,000
	160,178,719	157,445,921
TOTAL LIABILITIES AND NET ASSETS	$210,987,949	$209,230,134

MARYLAND HEALTH INSURANCE PLAN
STATUTORY STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended June 30, 2013 and 2012

	2013	2012
PREMIUMS AND OTHER REVENUES		
Premiums	$102,459,424	$ 101,942,284
Contract revenues - U.S. Department of Health and Human Services	19,792,152	13,747,104
Interest income	1,846,587	2,033,740
Federal grants	2,224,943	2,454,495
	126,323,106	120,177,623
BENEFITS PAID OR PROVIDED		
Loss and loss adjustment expenses	228,466,764	228,888,936
Premium subsidy expense	13,476,799	14,675,649
	241,943,563	243,564,585
INSURANCE EXPENSES AND OTHER DEDUCTIONS		
Program administration expenses	14,020,599	13,370,867
Professional and other expenses	1,097,325	1,915,038
Write-off of uncollectible premiums	2,649,108	3,267,939
	17,767,032	18,553,844
Loss from operations	(133,387,489)	(141,940,806)
NON-OPERATING REVENUES		
Assessments	126,801,480	122,296,039
Premium taxes	18,000,000	18,000,000
	144,801,480	140,296,039
Change in net assets	11,413,991	(1,644,767)
NET ASSETS, beginning of year	157,445,921	159,856,167
TRANSFER FROM STATE OF MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE	-	2,928,255
TRANSFERS FROM MHIP NET ASSETS		
State of Maryland Medical Assistance Program	(4,500,000)	-
State of Maryland General Fund	-	(1,500,000)
State of Maryland Kidney Disease Program	(4,202,109)	(3,000,000)
CHANGE IN NON-ADMITTED ASSETS	20,916	806,266
NET ASSETS, end of year	$ 160,178,719	$ 157,445,921

MARYLAND HEALTH INSURANCE PLAN
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	$ 101,237,592	$ 103,770,401
Contract revenues received - U.S. Department of Health and Human Services	19,232,798	13,258,739
Federal grant funds received	2,366,897	2,854,260
Interest income received	1,846,587	2,275,202
Premiums subsidy paid	(16,198,290)	(12,046,961)
Program administration, professional and other	(11,825,929)	(11,499,054)
Benefits paid	(232,104,348)	(227,005,636)
Net cash used in operations	(135,444,693)	(128,393,049)
FINANCING AND MISCELLANEOUS ACTIVITIES		
Other cash provided (applied):		
Assessments received	126,500,100	121,537,763
Premium taxes received	18,000,000	18,000,000
Advance funding provided by the State of Maryland	1,668,634	1,032,192
Net transfers from net assets	(8,702,109)	(1,571,745)
Net cash provided by financing and miscellaneous activities	137,466,625	138,998,210
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,021,932	10,605,161
CASH AND CASH EQUIVALENTS, beginning of year	182,594,870	171,989,709
CASH AND CASH EQUIVALENTS, end of year	$ 184,616,802	$ 182,594,870

MARYLAND HEALTH INSURANCE PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS

Maryland Health Insurance Plan (MHIP or the Plan) was established by the Maryland General Assembly in 2002 under Chapter 153 of the Acts of 2002, the Health Insurance Safety Net Act. Chapter 259, Acts of 2008, *"Maryland Health Insurance Plan - Status, Operation & Regulation,"* transferred MHIP from the Maryland Insurance Administration (the "Administration") and established MHIP as an independent unit of the State Government, effective October 1, 2008.

MHIP is a full-risk, state sponsored health plan created to decrease uncompensated health costs by providing access to affordable, comprehensive health benefits for medically uninsurable residents, as defined by Maryland law. MHIP superseded the Substantial Available and Affordable Coverage (SAAC) open enrollment program operated by commercial insurance carriers in Maryland and also functions as a state alternative mechanism in accordance with federal requirements under the Health Insurance Portability and Accountability Act (HIPAA). Policyholders currently pay premiums that are no more than 150% of the standard risk rate for individual health insurance sold in Maryland. MHIP also derives funding from annual assessments on net patient revenue of Maryland hospitals.

MHIP oversees the operation of the State's Senior Prescription Drug Assistance Program (SPDAP). The purpose of SPDAP is to subsidize the costs associated with participating in Medicare Part D for eligible individuals. The subsidy provided to Medicare Part D enrollees by SPDAP qualifies it as a State Pharmaceutical Assistance Program (SPAP) pursuant to federal law. SPDAP assists individuals with incomes below 300 percent of the federal poverty level who enroll in Medicare Part D by subsidizing member premiums. SPDAP also subsidizes coinsurance costs incurred in the Medicare Part D coverage gap, or so-called "donut hole."

On March 23, 2010, the President of the United States of America signed into law H.R. 3590, the Patient Protection and Affordable Care Act, Public Law 111-148 (the "ACA") as amended by the Health Care and Education Recovery Act of 2010; Section 1101 of the ACA established a temporary high risk health insurance pool program to provide health insurance coverage to currently uninsured individuals with pre-existing conditions as a transition to the broader market and health care reforms scheduled to take effect in January 2014. The ACA authorized the United States Department of Health and Human Services (HHS) to carry out the program directly, or through contracts with states or private, non-profit entities.

On July 1, 2010, MHIP entered into a contract with HHS to implement, in the State of Maryland, the temporary federal high risk pool program established by Section 1101 of the ACA, thus creating the Temporary Federal High Risk Health Insurance Pool Program of Maryland Health Insurance Plan (the "Federal Pool"). Under the contract, MHIP is using its existing arrangements with third parties, internal staffing and ongoing governance by its Board of Directors. In connection with this contract, HHS allocated $49.2 million (as amended) to Maryland to fund all costs of the federal pool through December 31, 2013, when it will cease operation by law. These funds are anticipated to be sufficient to cover the costs of the Federal Pool through its scheduled termination on December 31, 2013.

NOTE 1 – NATURE OF OPERATIONS (CONTINUED)

The laws governing MHIP are codified at Title 14, Subtitle 5 of the Insurance Article of the Maryland Annotated Code (the "Code"). Section 14-504 of the Code establishes the MHIP Fund. Member premiums, premium tax revenue for the SPDAP, the annual assessment on hospitals, and amounts deposited pursuant to Section 14-513, among other sources of revenue specified under Section 14-504(b), constitute the MHIP fund.

Under the Code, upon termination of MHIP, the Maryland General Assembly will legislate what is to be done with any funds held by MHIP after payment of all claims and expenses.

NOTE 2 – PERMITTED STATUTORY ACCOUNTING PRACTICES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Permitted Statutory Accounting Practices

The Plan, domiciled in Maryland, prepares statutory financial statements in accordance with the accounting practices prescribed or permitted by the administration. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so proscribed.

Use of Estimates

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the Administration requires management to make estimates and assumptions that affect the reported amounts and disclosures in the statutory financial statements. These estimates and assumptions by management could change in the future as more information becomes available. Actual results could differ from the estimates and assumptions used by management.

Basis of Presentation

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Administration, which practices differ from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP are:

Non-admitted Assets: Certain assets designated as "non-admitted," principally receivables over ninety days, if any are excluded from the Statements of Admitted Assets, Liabilities and Net Assets and directly charged or credited to net assets. Under GAAP, such assets may be included in the balance sheet, net, of specific reserves. The Plan held no non-admitted assessments receivable over ninety days, premiums receivable over ninety days totaling $12,075 and $47,991, and pharmaceutical rebates receivable over ninety days totaling $928,800 and $913,800 as of June 30, 2013 and 2012, respectively. Net non-admitted assets credited (charged) to net assets totaled $20,916 and $806,266 for the years ended June 30, 2013 and 2012, respectively.

NOTE 2 – PERMITTED STATUTORY ACCOUNTING PRACTICES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Statements of Cash Flows: Cash and cash equivalents in the Statements of Cash Flows represent cash deposits, savings accounts and certificates of deposit in banks or other similar financial institutions with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined. Other significant accounting practices are as follows:

Assets

Assets are stated at admitted asset value, which is the value prescribed or permitted by the Administration.

Cash and Cash Equivalents

All highly liquid investments with original maturities of one year or less at acquisition are considered to be cash equivalents and cost approximates fair value.

Premiums Receivable

Premiums are received monthly and are recognized as revenue over the policy period. Premiums received in advance represent the portion of premiums received that relate to future policy periods.

Contract Receivable – U.S. Department of Health and Human Services

The Federal Pool is funded by a $49.2 million (as amended) allocation included in a contract between MHIP and HHS. Amounts are available to be requisitioned on a continuous basis to fund the difference between premiums collected and claims paid plus allowable administrative costs incurred, as defined in the contract. Revenue is recognized to the extent that eligible expenditures have been paid by the Federal Pool.

Pharmaceutical Rebates Receivable

Pharmaceutical rebates receivable represents an estimate of pharmaceutical rebates earned but not yet received for the three month periods ended June 30, 2013 and 2012, respectively, based on historical information including contractual changes in rebate amounts, seasonality differences, changes in premium revenue and changes in utilization of drugs with varying rebate levels. Income from pharmaceutical rebates is recognized by MHIP as earned and is reported as a reduction to claims expense.

NOTE 2 – PERMITTED STATUTORY ACCOUNTING PRACTICES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grants Receivable

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to these grants is based on the expenditure of funds in accordance with grant restrictions and therefore, revenue is recognized once MHIP is notified it has been approved to receive the grant to the extent of grant expenditures for those grants. During fiscal year 2013, MHIP reported revenues from a federal bonus grant award of $785,565 for the low income premium subsidy program and of $1,439,378 related to a federal grant received for operating losses incurred during fiscal year 2012. During fiscal year 2012, MHIP reported revenues from a federal bonus grant award of $960,760 for the low income premium subsidy program and of $1,493,735 related to a federal grant received for operating losses incurred during fiscal year 2011. These federal grant awards are included in federal grant revenues for those respective fiscal years.

MHIP has also been notified that it was approved to receive a federal bonus grant award of $799,371 that will be available to MHIP during fiscal year 2014 for the low income premium subsidy program.

Assessments Receivable

Chapter 244, Acts of 2008, "*Health Services Cost Review Commission - Averted Uncompensated Care - Assessment,*" amended subsection 19-219 of the Health - General Article to authorize the Health Service Cost Review Commission to assess a uniform, broad-based, and reasonable amount in hospital rates to a) reflect the aggregate reduction in hospital uncompensated care realized from the expansion of health care coverage under Chapter 7 of the Acts of the General Assembly of 2007, and b) operate and administer MHIP. Hospitals would pay a portion of the assessment reflecting the aggregated reduction in hospital uncompensated care into the Health Care Coverage Fund and the portion of the assessment for operating and administering MHIP assessment funding. The act also sets an assessment floor of 0.8128% of net patient revenue. The overall hospital assessment may not exceed 3% in the aggregate of any hospital's total net regulated patient revenue. Assessments are recognized as non-operating income by MHIP as earned. Assessments receivable represents assessments earned but not yet received as of June 30, 2013 and 2012.

Premium Taxes

Pursuant to Section 14-106(e)(2) of the Insurance Article, CareFirst BlueCross BlueShield ("CareFirst") is required to deposit in the MHIP Fund an amount from its premium tax exemption to administer SPDAP. Pursuant to Chapter 27, Acts of 2012, *"Senior Prescription Drug Program - Sunset Extension,"* and Chapter 119, Acts of 2010, "*Senior Prescription Drug Program - Sunset Extension,*" amounts deposited into the MHIP Fund by CareFirst for the administration of SPDAP totaled $14,000,000 for each of the years ended June 30, 2013 and 2012. Chapter 557, Acts of 2008, *"Senior Prescription Drug Assistance Program - Subsidy for Medicare Part D Coverage Gap and Sunset Extension"* provides that, among other things, beginning January 1, 2009 and for each calendar year thereafter that if CareFirst has a surplus that exceeds 800% of the consolidated risk-based capital requirements applicable to the corporation in the immediate preceding calendar year, CareFirst shall transfer $4,000,000 to subsidize a Medicare D benefits gap for costs incurred by SPDAP members.

NOTE 2 – PERMITTED STATUTORY ACCOUNTING PRACTICES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premium Taxes (Continued)

Chapter 734, Acts of 2009, "*Health Insurance - Senior Prescription Drug Assistance Program - Funding*" provides that the $4,000,000 in new funding from CareFirst, pursuant to Chapter 557, Acts of 2008, is a sum to be paid in addition to the $14,000,000 subsidy that CareFirst already provides to SPDAP. The enactment also makes the following technical and procedural changes to the funding process to address the timing of the transfer of funds: the enactment requires CareFirst to notify SPDAP by September 1 of each year whether CareFirst will provide the additional funding to the program during the calendar year that starts on the immediately following January 1. It also requires CareFirst to pay the additional funding in quarterly installments of $1,000,000, beginning not later than October 1 for the calendar year that starts on the immediately following January 1.

Chapter 27, Acts of 2012, *"Senior Prescription Drug Program - Sunset Extension,"* requires a premium tax subsidy of $14,000,000 to be provided to SPDAP through fiscal year 2015.

Amounts deposited into the MHIP fund by CareFirst to fund the administration of SPDAP totaled $14,000,000, in each of the years ended June 30, 2013 and 2012. Amounts deposited into the MHIP fund to subsidize the Medicare Part D coverage gap subsidy totaled $4,000,000, in each of the years ended June 30, 2013 and 2012.

Losses, Loss Adjustment Expenses and Loss Reserves

The liability for losses and loss adjustment expenses consists of an aggregation of the estimated liability for incurred losses on claims that are known to the Plan as of the reporting date (claims payable) and an aggregate estimate of the liability for losses and loss adjustment expenses (LAE) incurred, but not reported, as of the same date. While information is available for the known losses, the liability for which has been established on a case-by-case basis, the unknown losses are based on the best estimate of such liabilities. Although MHIP considers its experience and industry data in determining such reserves, assumptions and projections as to future events are necessary in making these determinations, and ultimate losses may differ significantly in the near term from amounts projected. The effects of changes in reserve estimates are included in results of operations in the period in which estimates are changed. Reserves are not discounted.

Net Assets

Net assets represent the resources available and may be used to fund the liability for unreported losses and LAE, future operating deficiencies, or other specific uses designated by the Board of Directors or the Legislature of the State of Maryland. Net assets can be reserved or designated for specific purposes pursuant to legislative authority.

Coordination of Benefits

Funds obtained through the coordination of benefits with other providers of health care services are included as a reduction of operating losses.

NOTE 2 – PERMITTED STATUTORY ACCOUNTING PRACTICES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

MHIP meets the definition of a 501(c)(26) entity under the Internal Revenue Code and is, therefore, exempt, from federal income taxes. MHIP is not subject to Maryland state income taxes. Accordingly, the accompanying financial statements do not include a provision or a liability for income taxes.

NOTE 3 – CONCENTRATIONS OF CREDIT RISK

The Plan's financial instruments that are exposed to concentrations of credit risk consist primarily of the following:

Cash and cash equivalents - The Plan has cash balances in certain financial institutions in amounts which occasionally exceed federal deposit insurance limits. The financial stability of these institutions is continually reviewed by management. Effective December 31, 2010 and extending through December 31, 2012, all non-interest-bearing transaction accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) regardless of the balance of the account. As of June 30, 2013, all noninterest-bearing transaction accounts are insured up to $250,000 per account. As of June 30, 2013, MHIP had deposits of $2,696,126 that exceeded the FDIC coverage. However, the Plan has not experienced any losses in such accounts and believes that its cash and cash equivalents are not exposed to significant credit risk.

Assessments receivable - Assessments are receivable from multiple hospitals. Included in assessments receivable is an amount from one hospital accounting for approximately 13% and 12% of total assessments receivable at June 30, 2013 and 2012, respectively. Potential credit losses are considered minimal by management.

Contract receivable - The contract receivable is due from a single agency of the U.S. Government at June 30, 2013 and 2012. Potential credit losses are considered minimal by management.

Premiums receivable - Premiums are receivable from insured individuals and from one governmental agency of the State of Maryland. At June 30, 2013 and 2012, premiums receivable from a governmental agency of the State of Maryland were $154,501 and $410,257, respectively. Potential credit losses are considered minimal by management.

Management has not recorded an allowance for potential credit losses on any of the above receivables.

NOTE 4 – ADMINISTRATIVE SERVICE PROVIDERS

MHIP is required by law to contract with a third-party administrator. As of July 1, 2007, CareFirst has been MHIP's third-party administrator, and is currently obligated to continue in that capacity through June 30, 2014. Under the terms of the contract, CareFirst is responsible for all operational functions of the MHIP Plan, including marketing, receiving applications, determining eligibility, enrollment, issuance of certificates, collection of premiums, administering the provider network, data collection, case management, financial tracking and reporting, payment of claims, reporting to the MHIP Board, and premium billing. In exchange for those services,

NOTE 4 – ADMINISTRATIVE SERVICE PROVIDERS (CONTINUED)

CareFirst is paid a monthly administrative fee for each member and a monthly producer referral fee for each accepted application assisted by a producer. When claims exceed premiums, CareFirst is reimbursed by MHIP.

MHIP is also required by law to contract with a third-party administrator to administer SPDAP. The MHIP Board contracted with Pool Administrators, Inc. (PAI) as contract administrator of SPDAP effective January 1, 2008 and is currently obligated to continue in that capacity through December 31, 2014. Under the terms of the agreement, PAI is responsible for implementing and administering SPDAP in accordance with Title 14, Subtitle 5, Part II of the Maryland Insurance Article, and in a manner that ensures that SPDAP remains a federally-qualified SPAP. In exchange for these services, PAI is paid administrative fees.

CareFirst as one of MHIP's third party administrators, carries out substantially all operational functions of the Federal Pool including marketing, receiving applications, determining eligibility, enrollment, issuance of certificates, billing and collection of premiums, administering the provider network, data collection, case management, financial tracking and reporting, payment of claims and reporting to the MHIP Board. In exchange for those services, CareFirst is paid a monthly administrative fee for each member and a monthly producer referral fee for each accepted application assisted by a producer.

NOTE 5 – PHARMACEUTICAL REBATES RECEIVABLE

Quarter Ended	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoiced / Confirmed	Actual Rebates Collected Within 90 Days of Invoicing / Confirmation	Actual Rebates Collected Within 91 to 180 Days of Invoicing / Confirmation	Rebates Collected More Than 180 Days After Invoicing / Confirmation
6/30/2013	$ 464,400	-	$ -	$ -	$ -
3/31/2013	464,400	-	-	-	-
12/31/2012	464,400	-	-	-	-
9/30/2012	427,083	427,083	-	427,083	-
6/30/2012	456,900	-	-	-	-
3/31/2012	468,470	7,313	7,313	-	-
12/31/2011	465,130	12,487	4,130	8,357	-
9/30/2011	487,920	487,920	-	487,920	-
6/30/2011	450,000	537,304	-	537,304	-
3/31/2011	450,000	489,214	-	489,214	-
12/31/2010	450,000	457,270	-	457,270	-
9/30/2010	415,038	415,038	-	415,038	-

MARYLAND HEALTH INSURANCE PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 6 – LOSSES, LOSS ADJUSTMENT EXPENSES AND LOSS RESERVES

The Plan's liability for losses, loss adjustment expenses and loss reserves consists of an aggregation liability for incurred losses on claims that are known to the Plan as of the reporting date (claims aggregate estimate of the liability for losses incurred (loss reserves) and loss adjustment expenses but not reported to the Plan, as of the same date. The following is a summary of activity losses, expenses and loss reserves:

	2013	2012
Beginning of year	$ 21,915,100	$ 20,018,000
Incurred (recovered) related to:		
Current year	234,613,550	229,134,746
Prior years	(6,146,786)	(245,810)
Total	228,466,764	228,888,936
Change in non-admitted assets - Pharmaceutical rebates	(20,916)	13,800
Paid related to:		
Current year	(216,336,034)	(207,386,446)
Prior years	(15,768,314)	(19,619,190)
Total	(232,104,348)	(227,005,636)
Balance, end of year	$ 18,256,600	$ 21,915,100

The provision for loss and loss adjustment expenses decreased by approximately $6,147,000 and $245,000 in fiscal years 2013 and 2012, respectively, as a result of changes in estimates and due to lower than anticipated losses incurred in prior years. Incurred losses are presented net of pharmaceutical rebates of approximately $1,877,000 and $2,012,000 for the fiscal years ended June 30, 2013 and 2012, respectively. Paid losses are presented net of pharmaceutical rebates of approximately $1,855,000 and $1,993,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

NOTE 7 – NET ASSETS

Section 11 of Chapter 397, Acts of 2011, “Budget Reconciliation and Financing Act of 2011," provides that, among other things, and notwithstanding any other provision of the law, the Governor may transfer by budget amendment from the SPDAP account of the MHIP Fund established under Section 14-504 of the Insurance Article to the Kidney Disease Program established under Title 13, Subtitle 3 of the Health - General Article up to $1,500,000 in fiscal year 2012, and up to $3,000,000 in fiscal year 2013. Chapter 1 of the "Budget Reconciliation and Financing Act of 2012" signed on May 22, 2012, repealed and reenacted, with amendments, Section 11 of Chapter 397, Acts of 2011 and now provides, among other things, and notwithstanding any other provision of the law, the Governor may transfer by budget amendment from the SPDAP account of the MHIP Fund to the Kidney Disease Program up to $3,000,000 in fiscal year 2012 and up to $5,000,000 million in fiscal year 2013. Pursuant to this legislation, during fiscal year 2013 and 2012 designated net assets of SPDAP totaling $4,202,103 and $3,000,000, respectively were transferred to the Kidney Disease Program.

NOTE 7 – NET ASSETS (CONTINUED)

Section 5 of Chapter 397, Acts of 2011, "Budget Reconciliation and Financing Act of 2011" provides that, among other things, and notwithstanding any other provision of the law, the Governor may transfer by budget amendment from the SPDAP account of the MHIP Fund to the Maryland General Fund up to $1,500,000 in fiscal year 2012. Pursuant to this legislation, during fiscal year 2012 designated net assets of SPDAP totaling $1,500,000 were transferred to the Maryland General Fund.

Section 16 of Chapter 1, Acts of 2012, "Budget Reconciliation and Financing Act of 2012", approved by the governor on May 22, 2012, provides that, among other things, and notwithstanding any other provisions of the law, the Governor may transfer from the SPDAP account of the MHIP fund to the Medical Assistance Program up to $4,500,000 in fiscal year 2013. Accordingly, such amounts are classified as "Designated - Medical Assistance Program" in the accompanying 2012 statutory statements of admitted assets, liabilities and net assets. Pursuant to this legislation, during fiscal year 2013 designated net assets of SPDAP totaling $4,500,000 were transferred to the Maryland General Fund.

Section 70 of Chapter 395, Acts of 2012, "Budget Bill of 2012," signed on May 10, 2011, provides that, among other things, and notwithstanding any other provisions of the law, $5,000,000 of MHIP net assets are to become available immediately upon passage of the State of Maryland 2012 budget to reduce MHIP's appropriation for fiscal year 2011 due to lower-than-budgeted estimates of actual spending. In addition, this act provides that $250,000 of SPDAP net assets are to become available immediately upon passage of the State of Maryland 2012 budget to reduce appropriation for fiscal year 2011 due to lower than budgeted estimates of actual spending. During 2012, this provision lapsed and such funds were returned to unreserved and undesignated assets.

Section 24 of Chapter 484, Acts of 2010, "Budget Reconciliation and Financing Act of 2010," provided that, among other things, and notwithstanding any other provision of the law, the Governor may transfer, by budget amendment from the SPDAP account of the MHIP Fund to the Kidney Disease Program up to $1,500,000 in fiscal year 2011. Pursuant to this legislation, during fiscal year 2011 designated net assets of SPDAP totaling $1,500,000 were transferred to the Kidney Disease. During fiscal year 2012, unused funds related to these appropriations totaling $2,928,255 were returned to the SPDAP account of the MHIP Fund and are reflected as a transfer from the Department of Health and Mental Hygiene in the accompanying June 30, 2012 Statutory Statement of Operations and Changes in Net Assets.

NOTE 8 – RELATED PARTY TRANSACTIONS

The State of Maryland receives and disburses cash on behalf of MHIP. The balance of MHIP's cash maintained by the State of Maryland as of June 30, 2013 and 2012 totaled approximately $159,826,000 and $167,890,000, respectively.

NOTE 9 – OPERATING LEASE

MHIP leases office space under an operating lease, which was renewed effective June 12, 2011 and expires in June 2016. Future minimum lease payments under this operating lease total $67,350 for fiscal years 2013 through 2016. Rent expense under this lease totaled $68,374 and $66,708 for the fiscal years ended June 30, 2013 and 2012, respectively.

NOTE 10 – CONTINGENCIES

MHIP acknowledges that certain claims and legal actions can arise in the ordinary course of business. Management is currently unaware of any such actions against MHIP.

NOTE 11 – SUBSEQUENT EVENTS

Management evaluated subsequent events through September 30, 2013, the date the statutory financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to September 30, 2013 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the statutory financial statements as of and for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, but arose before the statutory financial statements were available to be issued, have not been recognized in the statutory financial statements as of and for the year ended June 30, 2013.

SUPPLEMENTARY INFORMATION

MARYLAND HEALTH INSURANCE PLAN STATUTORY STATEMENT OF ADMITTED ASSETS, LIABILITIES AND

NET ASSETS BY PROGRAM June 30, 2013

	MHIP	Federal Pool	SPDAP	Eliminations	Total
ADMITTED ASSETS					
Cash and cash equivalents	$ 167,643,380	$ 2,629,243	$ 14,344,179	$ -	$ 184,616,802
Receivables:					
Assessments	21,141,357	-	-	21,141,357	
Contract - U.S. Department of Health and Human Services	-	2,195,862	-	2,195,862	
Federal grants	1,832,511	-	-	-	1,832,511
Premiums	670,522	41,782	-	-	712,304
Pharmaceutical rebates	450,000	14,400	-	-	464,400
Due from MHIP Federal	80,854	-	-	(80,854)	-
Other current assets	20,404	687	3,622	-	24,713
TOTAL ADMITTED ASSETS	$ 191,839,028	$ 4,881,974	$ 14,347,801	$ (80,854)	$ 210,987,949
LIABILITIES AND NET ASSETS					
LIABILITIES					
Loss reserves and loss adjustment expenses	16,117,000	2,604,000	$ -	$ -	$ 18,721,000
Deferred premium tax revenue	-	-	4,500,000	-	4,500,000
Premium subsidies payable	-	-	5,985,278	-	5,985,278
Premiums received in advance	6,603,499	273,824	-	-	6,877,323
Accounts payable and accrued expenses	947,387	79,804	622,186	-	1,649,377
Due to CareFirst BlueCross BlueShield	8,165,024	967,239	-	-	9,132,263
Other liabilities	10,000	-	-	-	10,000
Due to State of Maryland	-	3,933,989	-	-	3,933,989
Due to MHIP	-	80,854	-	(80,854)	-
Total Liabilities	31,842,910	7,939,710	11,107,464	(80,854)	50,809,230
NET ASSETS					
Unreserved and undesignated	159,996,118	(3,057,736)	3,240,337	-	160,178,719
TOTAL LIABILITIES AND NET ASSETS	$ 191,839,028	$ 4,881,974	$ 14,347,801	$ (80,854)	$ 210,987,949

MARYLAND HEALTH INSURANCE PLAN STATUTORY STATEMENT OF OPERATIONS AND CHANGES IN

NET ASSETS BY PROGRAM
For the Year Ended June 30, 2013

	MHIP	Federal Pool	SPDAP	Total
PREMIUMS AND OTHER REVENUES				
Premiums	$ 97,912,838	$ 4,546,586	$ -	$ 102,459,424
Contract revenues - U.S. Department of Health and Human Services	-	19,792,152	-	19,792,152
Interest income	1,433,861	223,417	189,309	1,846,587
Federal grants	2,224,943	-	-	2,224,943
Total premiums and other revenues	101,571,642	24,562,155	189,309	126,323,106
BENEFITS PAID OR PROVIDED				
Loss and loss adjustment expense	204,742,015	23,724,749	-	228,466,764
Premium subsidy expense	-	-	13,476,799	13,476,799
Total benefits paid or provided		204,742,015	23,724,749	13,476,799 241,943,563
INSURANCE EXPENSES AND OTHER DEDUCTIONS				
Program administration expenses	10,891,737	1,272,542	1,856,320	14,020,599
Professional and other expenses	509,451	340,697	247,177	1,097,325
Write-off of uncollectible premiums	2,510,402	138,706	-	2,649,108
Total insurance expenses and other deductions	13,911,590	1,751,945	2,103,497	17,767,032
Loss from operations	(117,081,963)	(914,539)	(15,390,987)	(133,387,489)
NON-OPERATING REVENUES				
Assessments	126,801,480	-	-	126,801,480
Premium taxes	-	-	18,000,000	18,000,000 Total
non-operating revenues	126,801,480	-	18,000,000	144,801,480
Change in net assets	9,719,517	(914,539)	2,609,013	11,413,991
NET ASSETS, beginning of year	150,237,561	(2,125,073)	9,333,433	157,445,921
TRANSFER FROM STATE OF MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE	-	-	-	-
TRANSFERS FROM MHIP NET ASSETS				
State of Maryland Medical Assistance Program	-	-	(4,500,000)	(4,500,000)
State of Maryland Kidney Disease Program	-	-	(4,202,109)	(4,202,109)
CHANGE IN NON-ADMITTED ASSETS	39,040	(18,124)	-	20,916
NET ASSETS, end of year	$ 159,996,118	$ (3,057,736)	$ 3,240,337	$ 160,178,719

MARYLAND HEALTH INSURANCE PLAN STATUTORY STATEMENT OF ADMITTED ASSETS, LIABILITIES AND

NET ASSETS BY PROGRAM June 30, 2012

	MH1P	Federal Pool	SPDAP	Eliminations	Total
ADMITTED ASSETS					
Cash and cash equivalents	$ 157,508,284	$ 1,823,826	$ 23,262,760	$ -	$ 182,594,870
Receivables:					
Assessments	20,839,977	-	-	-	20,839,977
Contract - U.S. Department of Health and Human Services	-	1,636,508	-	-	1,636,508
Federal grants	1,974,465	-	-	-	1,974,465
Premiums	1,499,864	89,132	-	-	1,588,996
Pharmaceutical rebates	450,000	6,900	-	-	456,900
Due from MHIP Federal	61,660	-	-	(61,660)	-
Other current assets	23,762	-	114,656	-	138,418
TOTAL ADMITTED ASSETS	$ 182,358,012	$ 3,556,366	$ 23,377,416	$ (61,660)	$ 209,230,134
LIABILITIES AND NET ASSETS					
LIABILITIES					
Loss reserves and loss adjustment expenses	$ 20,502,000	$ 1,870,000	$ -	$ -	$ 22,372,000
Deferred premium tax revenue	-	-	4,500,000	-	4,500,000
Premium subsidies payable	-	-	8,706,769	-	8,706,769
Premiums received in advance	6,162,987	163,752	-	-	6,326,739
Accounts payable and accrued expenses	993,205	89,627	837,214	-	1,920,046
Due to CareFirst BlueCross BlueShield	4,452,259	1,231,045	-	-	5,683,304
Other liabilities	10,000	-	-	-	10,000
Due to State of Maryland	-	2,265,355	-	-	2,265,355
Due to MHIP	-	61,660	-	(61,660)	-
Total Liabilities	32,120,451	5,681,439	14,043,983	(61,660)	51,784,213
NET ASSETS					
Unreserved and undesignated	150,237,561	(2,125,073)	(166,567)	-	147,945,921
Designated -					
State of Maryland Kidney Disease Program	-	-	5,000,000	-	5,000,000
State of Maryland Medical Assistance Program	-	- 4,500,000	- 4,500,000	Total net assets	150,237,561
		(2,125,073)	9,333,433	-	157,445,921
TOTAL LIABILITIES AND NET ASSETS	$ 182,358,012	$ 3,556,366	$ 23,377,416	$ (61,660)	$ 209,230,134

MARYLAND HEALTH INSURANCE PLAN STATUTORY STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS BY PROGRAM
For the Year Ended June 30, 2012

	MHIP	Federal Pool	SPDAP	Total
PREMIUMS AND OTHER REVENUES				
Premiums				
Contract revenues - U.S. Department of Health and Human Services	$ 99,383,158	$2,559,126	$ -	101,942,284
	-	13,747,104	-	13,747,104
Interest income	1,790,868	292	242,580	2,033,740
Federal grants	2,454,495	-	-	2,454,495
Total premiums and other revenues	103,628,521	16,306,522	242,580	120,177,623
BENEFITS PAID OR PROVIDED				
Loss and loss adjustment expense	213,632,921	15,256,015	-	228,888,936
Premium subsidy expense	-	-	14,675,649	14,675,649
Total benefits paid or provided	213,632,921	15,256,015	14,675,649	243,564,585
INSURANCE EXPENSES AND OTHER DEDUCTIONS				
Program administration expenses	10,653,593	725,660	1,991,614	13,370,867
Professional and other expenses	616,168	819,567	479,303	1,915,038
Write-off of uncollectible premiums	3,177,405	90,534	-	3,267,939
Total insurance expenses and other deductions	14,447,166	1,635,761	2,470,917	18,553,844
Loss from operations	(124,451,566)	(585,254)	(16,903,986)	(141,940,806)
NON-OPERATING REVENUES				
Assessments	122,296,039	-	-	122,296,039
Premium taxes	-	-	18,000,000	18,000,000
Total non-operating revenues	122,296,039	-	18,000,000	140,296,039
Change in net assets	(2,155,527)	(585,254)	1,096,014	(1,644,767)
NET ASSETS, beginning of year	151,572,822	(1,525,819)	9,809,164	159,856,167
TRANSFER FROM STATE OF MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE	-	-	2,928,255	2,928,255
TRANSFERS FROM MHIP NET ASSETS				
State of Maryland General Fund	-	-	(1,500,000)	(1,500,000)
State of Maryland Kidney Disease Program	-	-	(3,000,000)	(3,000,000)
CHANGE IN NON-ADMITTED ASSETS	820,266	(14,000)	-	806,266
NET ASSETS, end of year	$ 150,237,561	$ (2,125,073)	$ 9,333,433	$ 157,445,921